Non-Performing Assets of Co-operative Banks

45. SHRI R.P. GOENKA: Will the Minister of FINANCE be please to state:

(a) whether Co-operative Banks have been allowed to go in for one time settlement (OTS) of the Non-Performing Assets (NPAs);

(b) if so, the details of the conditionalities, the main parameters and guidelines laid down therefor; and

(c) the broad estimate of the present NPAs of the Co-operative Banks and efforts made to recover the outstandings?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL): (a) and (b) Yes, Sir. Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) have issued guidelines for chronic non performing assets/overdues to cooperative credit structure. A copy of the guidelines issued *vide* RBI Circular UBD No.BSD. 1.CS. 1/12.05.05/2001-2002 dated 31 October. 2001 and NABARD circular Letter No. NB. PCD (OPR)/153/A 131(OTS)/2001-02 dated 26 April, 2001 are annexed as statement-I and II. (*See* below)

(c) As reported by NABARD non-performing assets of State Cooperative Banks (SCBs), District Central Cooperative Banks (DCCBs), State Cooperative Agriculture Rural Development Banks

(SCARDBs) and Primary Cooperative Agriculture Rural Banks (PCARDBs) as on 31 March 2001 are provisionally estimated to Rs. 16,574.30 crores.

Statement-I

Guidelines issued by RBI regarding Non-Performing Assets of Cooperative Banks

Telegrams:
"URBCREDIT" MUMBAI
Telex No.: 011-74492
Fax: 497 4030
Telephone No.: 4939930-49
Post Box No. : 6587

RESERVE BANK OF INDIA
CENTRAL OFFICE
URBAN BANKS DEPARTMENT
1st FLOOR, GARMENT HOUSE
WORLI, MUMBAI-400018

Please quote in reply

Ref. UBD No. BSD.I.
CS. 1/12.05.05/2001-2002

31 October 2001

The Chief Secretaries of all the States

Dear Sir,

Guidelines for recovery of dues relating to Non-Performing Assets (NPAs) of Primary (Urban) Co-operative Banks

In the recent past, we have been receiving representations from urban banks and federations of urban banks for issue of guidelines relating to compromise settlements of Non-Performance Assets (NPAs). You are aware that there are no uniform provisions in the Co-operative Societies Acts/Rules for the Board of Directors to enter into compromise settlements with the borrowers in respect of any loans granted by them and waiver/write off contemplated under one time settlement proposals require the approval of the Registrar of Co-operative Societies. However, considering the increasing trend in NPAs of urban banks and the delay in settlement of court cases covering such loans and advances, it is felt necessary to issue guidelines to urban banks for the purpose of streamlining the systems and procedures followed by them for one time settlements.

2. As there are no uniform provision in the Co-operative Societies Acts/Rules of the States, in regard to compromise settlement, it is not desirable to issue mandatory guidelines as we have done in the case of commercial banks. Hence, we have decided to issue a model guidelines which can be modified by your State, as per the legal position obtaining.

3. The compromise settlements may cover all categories of borrowers, excluding cases of wilful default, fraud and malfeasance, loans with tie-up arrangement for recovery (*e.g.* salary earners societies), loans availed of and guaranteed by Directors of respective co-operative institutions, loans guaranteed by Government (including cases where Government guarantee has been invoked but not honoured by the Government), loans due from Government Departments/Undertakings, loans under Government directed programmes, etc.

4. The draft guidelines in this regard are given in Annexure. The guidelines are non-discretionary inasmuch as the CEO/Board of Directors should not deviate from the parameters indicated in the guidelines for compromise settlement of NPAs. Banks should follow the guidelines for compromise settlement of all NPAs covered without discrimination among borrowers. The Government may consider the scheme and issue necessary notification/administrative order to urban banks in the respective State/Territory on the lines indicated.

5. A copy of the guidelines issued to banks may be forwarded to us for information.

Yours faithfully,

(S.Karuppasamy)
Chief General Manager.

Draft Guidelines for One Time Settlement (OTS) of Non-Performing Assets (NPAs) by Urban Cooperative Banks

1. **Coverage**

The guidelines will apply to all non-performing accounts, in all sectors irrespective of the nature of business/activity/purpose of advances, which had become doubtful or loss assets as on 31 March 1998. The guidelines will also cover NPAs which were classified as sub-standard as on 31 March, 1998, and which have subsequently

become doubtful or loss assets. However, the Registrar of Co-operative Societies (RCS) may fix and other cut-off date prior to March 31, if he so desires. The following categories of loans will not be covered by the scheme.

(a) Cases wilful default, frauds and malfeasance.

(b) Loans with tie-up arrangement for recovery (*e.g.* loans availed by salary earners).

(c) Loans availed of or guaranteed by Directors or by close relatives of Directors or by firms/companies/institutions in which the Directors are interested or by ex-Directors of respective urban co-operative banks.

(d) Loans guaranteed by Government (including cases where Government guarantee has been invoked but not honoured by the Government).

(e) Loans due from Government Department/Undertakings.

(f) Loans under Government directed programmes.

2. Cut-off levels in the NPAs accounts identified as per (i) above

The RCS should fix the cut-off limit for individual borrowers and institutional borrowers (*i.e.* firms/companies/other institutions), **under all loan accounts,** The cut-off limits may be fixed based on either loans outstanding or working capital of the bank or its deposits as on 31 March 2001, as may be decided the RCS on the basis of the above norms, say for banks having loans/working capital/deposits upto Rs. 25 crore, above Rs. 25 crore but upto Rs. 50 crore and so on. There should be a uniform criteria for this purpose.

3. Settlement formula

(i) NPAs classified as Doubtful or Loss Assets as on 31 March 1998

Minimum amount to be recovered : 100 per cent of the outstanding balance in the account inclusive of interest as on the date on which the account was categorised as doubtful asset.

(ii) NPAs classified as Sub-standard as on 31 March 1996 which became Doubtful or Loss Assets subsequently

Minimum amount to be covered : 100 per cent of the outstanding balance in the account inclusive of interest as on the date on which the account was classified as doubtful plus interest at a rate not less than the minimum lending rate per annum thereafter till the date of final payment.

(iii) Penal interest, other charges and payment of settlement amount in instalments

(i) Penal interest, legal charges and other charges could be waived.

(ii) Amount of settlement arrived at as above should be recovered preferably in one lumpsum. In cases where the borrowers are unable to pay the entire amount in one lumpsum, at least 25 per cent of the amount of settlement should be recovered upfront and the balance amount of 75 per cent recovered in instalments within a maximum period of one year togetherwith interest at minimum lending rate from the date of settlement upto the date of final payment.

4. **Competent Authority**

The scheme is to be approved by the Board of Directors of the concerned banks within the provision of the Co-operative Societies Act/ Rules/Notification/Administrative guidelines issued by the concerned Registrar of Co-operative Societies. A Settlement Advisory Committee should be constituted by the banks to review all applications received and to recommend eligible cases to the Competent Authority for sanction. The powers to sanction waiver/ remission of penal interest, charges and to take all related decisions may be vested with the Board within the provision of the Co-operative Societies Acts/Rules/Notification/Administrative Guidelines issued by the concerned RCS. The Scheme will be non-discretionary and non-discriminatory.

5. **Non-discretionary and Non-discriminatory treatment**

The banks should follow the guidelines for compromise settlement of all NPAs covered, without discrimination among borrowers. The guidelines are non-discretionary inasmuch as the CEO/Board of Directors should not deviate from the parameters indicated in the guidelines for compromise settlement of NPAs.

6. Operative period of the Scheme

The Scheme will remain operative upto June 30, 2002. The applications received for OTS upto June 30, 2002 should be processed and decisions taken thereon at the earliest but not later than September 30, 2002.

7. Settlement Advisory Committees (SACs)

(i) Constitution of SACs

The Board at the Head Office may constitute SAC comprising officials of the bank. The Committee may comprise of the Chairman, Directors, Chief Executive Officer of the bank, another Senior Official and or a Consultant who has experience in the field of banking, management or law. The official who has sanctioned the particular loan which has become NPA under his delegated authority should not participate in the SAC meeting where that loan account is under consideration for settlement. The SAC constituted as above may review requests for compromise settlements from eligible borrowers.

(ii) Functioning of SAC

(a) The Boards of banks may draw broad guidelines and procedures for the functioning of SAC. SAC may recommend eligible cases for approval of compromise settlements within the powers delegated under the Co-operative Societies Act/Administrative instructions. Powers for compromise proposals, wherever delegated to the Board of Directors of urban banks as per the Co-operative Societies Act/Rules should be exercised only on the recommendation of SAC.

(b) The Board should review the decisions taken by the SAC every month and ensure that the process of settlement is complete within the stipulated period.

8. **Action against other defaulters**

In cases where restructuring is not feasible or defaulters have not come forward for compromise settlement, suits must be filed promptly for recovery of dues Banks should follow up suit filed cases vigorously and effectively in the Courts to decide the cases and realization of dues at the earliest.

9. **General**

(i) In cases of NPAs where arbitration/execution petitions have been filed and or degree obtained and recovery certificates issued, the settlement as per these guidelines will be with the consent of the Competent Authority.

(ii) A long term multi-pronged and effective NPA management strategy should be put in place in each institution to arrest the incidence of fresh NPAs.

(iii) The waiver that may be allowed by the banks in terms of these guidelines will have to be on their own strength and no financial support from Government or RBI would be extended.

(iv) The banks should submit a report on the progress in recovery of NPAs under the guidelines every quarter to the Board of Directors.

(v) A copy of the final guidelines issued by the State Government may be sent to us for our information and record.

Statement-II

Guidelines issued by NABARD regarding Non-Performing Assets of Cooperative Banks

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

Plot No. C-24,
Block No. G
Post Bag No. 8121
Bandra-Kurla
Complex
Mumbai-400 051.

Production Credit Department **e-mail:nabpcd@bom5.vsnl.net.in**

NB PCD (OPR)/153/A131 (OTS)/2001-02

Circular No. PCD. 07/2001-02

26 April 2001

The Managing Director/General Manager
All State Cooperative Banks
All District Central Cooperative Banks

Dear Sir

Guidelines for recovery of dues relating to Non-Performing Assets (NPAs)

Following the revised guidelines issued by the Reserve Bank of India (RBI) in July 2000 to public sector banks for recovery of dues relating to NPAs, the National Federation of State Cooperative Banks (NAFSCOB) as well as several SCBs and DCCBs had requested NABARD for issue of similar guidelines to them. The matter was also discussed in the Conference of the Chief Executives of SCBs convened by NABARD at Mumbai on 24 February 2001.

2. In the context of rising overdues/NPA levels in the cooperative credit structure, while the banks will have to take effective measures to strengthen the credit appraisal and supervision mechanism for arresting incidence of fresh overdues/NPAs, the need for a

simplified, non-discretionary and non-discriminatory mechanism for recovery of stock of NPAs under all categories of loans and advances has been felt for quite sometime now. Further, since the cooperative banks provide loans and advances through on-lending as well as directly to constituents, the terms and process of recovery of NPAs under such mechanism will have to be stipulated at the ultimate borrower level and the proceeds of the settlement as well as costs/losses arising therefrom will have to be shared between the various tiers involved, on a mutually agreed basis.

3. Keeping in view the special characteristics of the short term cooperative credit structure as mentioned above, the Reserve Bank of India have since finalised, as a one-time measure, the guidelines for One-Time Settlement (OTS) of chronic NPAs in SCBs and DCCBs and overdues for 3 years and above in the case of PACS and the same are given in the Annexure. The cut off date for NPAs in the case of SCBs/DCCBs and overdues for three years and more in the case of PACS has been fixed as 31 March 1998. The NPAs will include all sector irrespective of the business/activity/purpose, which have become doubtful of recovery or loss. The guidelines should be uniformly followed by the banks for compromise settlement of all the NPAs covered thereunder without discrimination. Based on the guidelines, the banks may prepare schemes for one time settlement and the same may be got approved by the respective Boards of the banks as also by the concerned Registrar of Cooperative Societies. The powers to sanction waiver/remission of penal interest, other charges, etc. envisaged in the scheme and to take all related decisions may be appropriately delegated by the Boards. The Scheme will remain operative upto 31 March 2002 and the proposals for settlement under the OTS received upto 31 March 2002 should be processed and decisions taken thereon before 30 June 2002.The Scheme is non-discretionary and non-discriminatory.

4. Some of the State Governments/banks have, on their own, formulated OTS Schemes. It would be necessary that such schemes are modified suitably so as to conform strictly to the guidelines as per Annexure and to have uniformity throughout the country.

5. We are separately forwarding a copy of this circular letter to the

RCS in all States with a request to them to issue suitable administrative orders for implementing the guidelines by SCBs, DCCBs and PACS.

6. The banks should place before their Boards of Directors a report on the progress in recovery of NPAs under the guidelines, every quarter. You may also submit a quarterly progress report to the concerned RO of RBI as well as NABARD. In the case of PACS, the DCCB concerned may consolidate the position and send the same through the SCB to the RO of RBI/NABARD.

7. Please acknowledge receipt.

Yours faithfully
Sd/-
(Hameed Dawood)
Chief General Manager

Encl: as above

Hindi version enclosed.

Guidelines for One-Time Settlement (OTS) of chronic NPAs/overdues in the short-term cooperative credit structure

[Ref. Circular Letter No. NB.PCD(OPR)/153/A 131 (OTS)/ 2001-02 dt. 26 April 2001]

In the short-term cooperative credit structure which is operating under a three-tier system of SCB/DCCBs/PACS in most of the States, the total overdues at DCCBs' level (including at SCBs' level in two-tier structure) had aggregated Rs. 8751 crore as on 30 June 1999, constituting around 23.2% of thier total loans and advances outstanding as on that date and overdues over three years at Rs. 1925 crore forming 22% of the total overdues as on 30 June 1999. Measured in terms of quality of assets, NPAs in DCCBs formed 17.8% of their total loans and advances outstanding as on 31 March 1999.

2. In the above context, while the cooperative banks would have to

take effective measures to strengthen the credit appraisal and supervision mechanism for arresting the incidence of fresh NPAs/ overdues, the need for a realistic approach to reduce the stock of existing chronic NPAs under all categories of loans and advances has been felt for quite some time. Issue of suitable guidelines in this regard to cooperatives had also become necessary in the wake of issue of guidelines by RBI in July 2000 to Public Sector Banks for recovery of stock of NPAs through a simplified, non-discretionary and non-discriminatory mechanism.

3. Unlike the public sector banks, cooperatives provide loans and advances through on-lending as well as directly to constituents. In the case of loans and advances for agriculture and non-farm activities, the SCBs and DCCBs are intermediary agencies engaged in financing Primary Agricultural Credit Societies (PACS) for on-lending to ultimate borrowers. Further, bulk of the NPAs of DCCBs are under short-term agricultural loans, reflecting the overdues/NPAs at the primary level against farmers. DCCBs provide loans directly to individuals for various purposes (other than agriculture) and also to non-credit cooperative societies engaged in manufacture/ procurement, processing, marketing, etc., with or without refinance support from SCBs which too provide direct loans to individuals and cooperative societies for various purposes. Consequent to the tier system in cooperatives, the terms and process of one-time settlement in the case of advance under on-lending through primaries/DCCBs will have to be stipulated at the ultimate borrower level and the proceeds of settlement as well as costs and losses arising therefrom will have to be shared between the various tiers involved, on a mutually agreed basis.

4. Keeping in view the special characteristics of cooperatives as mentioned above, the following guidelines for recovery of chronic NPAs have since been finalised by the Reserve Bank of India, as a one-time measure, for cooperative credit institutions.

(i) Coverage

A. SCBs / DCCBs.

a. NPAs in all sectors irrespective of the nature of business / activity / purpose, which had become doubtful or loss as on 31 March, 1998.

b. NPAs which were classified as sub-standard as on 31 March 1998 and which have subsequently become doubtful or loss category.

B. PACS

Overdues for three years and more as on 31 March 1998 which had become doubtful of recovery.

C. Cases of wilful default, frauds and malfeasance, loans with tie-up arrangement for recovery (*e.g.* salary earners, societies), loans availed of and guaranteed by Directors of respective cooperative institutions, loans guaranteed by Government (including cases where Government guarantee has been invoked but not honoured by the Government), loans due from Government Departments / undertakings, loans under Government directed programmes like PDS, will not be covered.

(ii) Cut off levels in the NPAs / overdue. accounts identified as per (i) above

A. SCBs / DCCBs—Outstanding balance not to exceed Rs. 5 lakh per individual borrower and Rs. 500 lakh per institutional borrower, under all loan accounts.

B. PACS—Outstanding balance not to exceed Rs. 5 lakh per borrower under all loan accounts.

Outstanding balance for the above purpose would cover principal and normal interest due as on 31 March 1998 [in respect of SCBs / DCCBs and PACS].

(iii) Settlement formula

A. SCBs / DCCBs

a. NPAs classified as doubtful or loss as on 31 March 1998:

Minimum amount to be recovered: 100 per cent of the outstanding balance in the account inclusive of interest as on the date on which the account was categorised as doubtful NPAs.

b. NPAs classified as Sub-standard as on 31 March 1998 which became doubtful or loss subsequently:

Minimum amount to be recovered: 100 per cent outstanding balance in the account inclusive of interest as on the date on which the account was classified as doubtful plus interest at minimum lending rate of 12 per cent per annum thereafter till the date of final payment.

B. PACS

Minimum amount to be recovered: 100 per cent of the balance outstanding [inclusive of interest] when the account became overdue for 3 years.

(iv) Penal interest, other charges and payment of settlement amount in instalments

a. Penal interest, legal charges and other charges may be waived.

b. Amount of settlement arrived at as above, should be recovered preferably in one lumpsum. In cases where the borrowers are unable to pay the entire amount in one lumpsum, atleast 25% of the amount of settlement should be recovered upfront and the balance amount of 75 per cent recovered in instalments within a maximum period of one year together with interest at minimum lending rate i.e. 12% p.a. from the date of settlement upto the date of final payment.

(v) Competent Authority

a. The scheme is to be approved by the board of the banks concerned and the concerned Registrar of Cooperative Societies (RCS).

b. The Scheme will be non-discretionary and non-discriminatory.

c. The powers to sanction waiver/remission of penal interest, other charges and to take all related decisions may be appropriately delegated by the Board.

(vi) **Guidelines for recovery of NPAs in SCBs/DCCBs beyond the cut-off levels indicated above.**

a. The Board of Directors may evolve policy guidelines regarding one time settlement of NPAs over the said cut off levels covering the computation formula, realisable amount, cut-off date and payment conditions with reference to factors such as security, disposability etc., and get the same approved by the Registrar of Cooperative Societies.

b. Chief Executive of the institution (SCB/DCCB) should personally supervise the NPAs beyond the cut-off levels. A list of such NPAs should be prepared and all cases reviewed by the Chief Executive personally and the course of action decided in terms of rehabilitation/restructuring, one time settlement or filing arbitration petitions within six months. The matter should also be placed before the Board of Directors, finalising the course of action in each case.

(vii) **Other related aspects**

a. In case of NPAs where arbitration/execution petitions have been filed and/or decree obtained and recovery certificates issued, the settlement as per these guidelines will be with the consent of the competent authority.

b. Institutions may give wide publicity to the Scheme and create an awareness among borrowers so as to achieve its objective *viz.*, sizeable reduction in NPAs in a transparent manner through recovery of chronic NPAs.

c. A long term multi-pronged and effective NPA management strategy should be put in place in each institution to arrest the incidence of fresh NPAs.

d. Some of the State governments have formulated OTS Schemes. It would be necessary for these State governments to issue

instructions/orders modifying their schemes to conform to the above scheme to have uniformity throughout the country.

e. Officials sanctioning the particular loan/s should not participate in the committee etc., if appointed by the Board for deciding OTS.

f. The State government have to approve the guidelines and issue administrative orders in this regard.

g. The waiver that may be allowed by the banks in terms of these guidelines will have to be on their own strength and no financial support from Government, RBI or NABARD would be extended.

h. The banks should submit a report on the progress in recovery of NPAs under the guidelines every quarter to the Board of Directors. A copy of report may be sent to NABARD and also to the concerned Regional Office of RBI. In case of PACS the concerned DCCB may consolidate the position and send the same through SCB to NABARD and also to the concerned Regional Office of RBI.

(viii) **Operative period of the Scheme**

The Scheme will remain operative upto 31 March 2002. The applications received for OTS upto 31 March 2002 should be processed and decisions taken thereon at the earliest but not later than 30 June 2002.

Amendment of Foreign Exchange Management Act

46. SHRI AMAR SINGH: Will the Minister of FINANCE be pleased to state:

(a) whether Government propose to amend the Foreign Exchange Management Act so as to confer power of arrest and prosecution on Government;

(b) if so, what are the details thereof; and

(c) by when the proposed legislation would be brought forward?